THE IMPACT OF STRATEGIC HUMAN RESOURCE MANAGEMENT PRACTICE ON ORGANISATIONAL EFFECTIVENESS: A CASE STUDY OF SELECTED INSURANCE COMPANIES IN ETHIOPIA

Worku Mekonnen*, Endehsaw Azaj**

*Associate Professor, Addis Ababa University, Ethiopia. Email: worku.mekonnen@gmail.com **Research Scholar, School of Commerce, Addis Ababa University, Ethiopia.

Abstract: The purpose of this study is to show the impact of strategic human resource management practices on organisational effectiveness. Towards this end, an explanatory research design was employed. Out of 160 targeted population, a sample size of 115 was taken using the Guilford and Fruchter (1973) formula and the responses of the 115 employees were obtained. The study uncovered that the level of SHRM practices was medium, since its mean value lies between 3.33-3.69 based on the five-point Likert scale measurement. The results of the Pearson correlation coefficient analysis have shown positive and significant relationships between each SHRM practice and organisational effectiveness. Furthermore, the predictive power of the aggregate SHRM practice on organisational effectiveness was found to be .457, meaning that in 45.7% cases, variations on organisational effectiveness can be explained by SHRM practices. Therefore, the study suggests that organisations should place more emphasis on strategic HRM practices to gain better organisational effectiveness.

Keywords: Strategic Human Resource Management, Organisational Effectiveness, Insurance Companies

BACKGROUND OF THE STUDY

Strategic human resource management (SHRM) is "the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goals" (Wright & McMahan, 1992: 298). In the early 1980s, a strategic approach to human resources was emphasised by many scholars. Changes in thinking and practice caused an increase in specialization, thus reducing the use of the term "personnel management" (Miller, 2006). In the 1980s and 1990s, changes in the operational environment of HRM drew attention to the strategic management of human resources.

Strategic human resource management (SHRM) concerns the roles performed by human resource management systems in a firm's performance, concentrating particularly on the use of human resources as a way of achieving a competitive advantage (Paul & Anantharaman, 2013; Darwish, 2013; Schuler, Randall, Jackson & Susan, 2007). In addition, the authors explained that strategic human resource management practices are employed by organisations to enhance their productivity and effectiveness. Organisations that desire to be effective are increasingly realising that the most critical factor contributing to the attainment of goals and objectives is human resources. Physical assets, such as facilities, products and services, or technologies can be cloned or imitated by another organisation. However, human assets cannot be duplicated, therefore becoming the competitive advantage that an organisation enjoys (Marier, 2012).

According to Schuler and Jackson (2009), strategic human resource management practices such as recruitment, training and development, appraisal, employee relations, and compensation are concerned with how employees are governed in firms in order to ensure the firm attains a sustainable competitive advantage, high quality of work-life balance, and profitability. Similarly, Katou and Budhwar (2007), Pfeffer (1998), Cascio (1992), and Sani (2011) link human capital to firm performance through these HRM practices.

The development of any nation, therefore, depends to a very large extent on the caliber, organisation, and motivation of its human resources. How well an organisation performs its

mission and accomplishes its goals of programme service delivery is of paramount concern. Improving administrative capacity, especially those aspects dealing with human resources, is the most challenging factor for improving organisational effectiveness. Strategic human resource management (SHRM) enhances employee productivity and the ability of organisations to achieve their mission (Jules and Holzer, 2001). Integrating the use of human resource practices into the strategic planning process enables an organisation to better achieve its goals and objectives.

Bowen and Ostroff (2004); Singh (2004); Katou and Budhwar (2006); Dimba and K'Óbonyo (2009) examined the effect and influence of strategic human resource management practices on big private manufacturing and educational institutions in developed countries. Mathew (2016) and Njenga (2018) studied the contribution of SHRM towards organisational effectiveness by considering non-profit organisations (NGOs) and the effect of strategic human resource management practices on the firm's performance, respectively. Thus, this study is targeted at assessing the impact of strategic HRM practices on the insurance industry's performance, where limited literature is available, particularly in the context of organisations in Ethiopia, Africa.

STATEMENT OF THE PROBLEM

A number of researchers have shown that SHRM would create harmony between organisational strategies and HR practices to provide synergy for an organisation's performance. Many HR researchers believe that the HR department should play a greater role in strategy formulation and implementation. HR systems should strive to be harmonious with the overall strategies of the organisation (Tyson, 1987).

Many authors have indicated that strategic human resource management practices are important to enhance corporate performance (Katou & Budhwar, 2007; Dimba & K'Óbonyo, 2009). However, limited studies are available to show the impact of strategic human resources management on organisational effectiveness, particularly in the insurance industry sector in African countries like Ethiopia. Thus, this study targeted at filling the research gap by examining the impact of strategic HRM practices on the effectiveness of insurance service provision in Ethiopia.

The preliminary document analysis suggests that a significant level of human resource management strategies of the organisations under study did not coincide with the strategic plan of business and the company strategy. Moreover, the application of strategic human resource management and its practices were inadequate. Therefore,

the focus of this study is on pinpointing the impact of strategic human resource management practices on the organisations' effectiveness.

RESEARCH QUESTIONS

This study is expected to answer the following basic questions:

- What is the level of strategic human resource management practice and organisational effectiveness of the organisations?
- Is there any relationship between strategic HRM practices and effectiveness of the organisations?
- How far does SHRM practice explain organisational effectiveness?

REVIEW OF RELATED LITERATURE

The Concept of Organisational Effectiveness (OE)

Organisational effectiveness (OE) is a systematic approach to continuously improving an organisation's performance, performance capacity, and client outcomes. In the case of OE, "systematic" refers to taking a step-by-step approach. In simple terms, therefore, OE is a step-by-step approach to continuously improving an organisation (American Public Human Services Association, 2009).

The measurement of organisational performance is, therefore, not easy for business organisations with multiple objectives of profitability, employee satisfaction, productivity, growth, social responsibility, the ability to adapt to the ever changing environment, and so on. Although performance has been traditionally conceptualised in terms of financial measures, some scholars have proposed a broader performance construct that incorporates non-financial measures, including, among others, market share, product quality, and company image (Waiganjo, Mukulu & Kahiri, 2012).

Consequently, organisational effectiveness is the concept explaining how effective an organisation is in achieving the outcomes the organisation intends to produce. It is an abstract concept and basically impossible to measure. Instead of measuring organisational effectiveness, the organisation determines proxy measures which will be used to represent effectiveness. Malik, Ghafoor and Naseer (2011), in measuring organisational effectiveness, considered factors such as efficiency of management, performance of employees, core competencies, number of people served, types and sizes of population segments, and so on. Different authors at different times have developed and argued different organisational effectiveness models. There is not a single model of organisational effectiveness to fit all organisations. According to Balduck and Buelens (2008), the issue of effectiveness in organisations revolves round four main approaches: the system resource approach, the goal approach, the strategic constituency approach, and the internal process approach. Hence, for the purpose of this study, the researcher will use organisational effectiveness as a measure of organisational performance, which will be expressed through the four balanced scorecard (BSC) dimensions, namely financial growth, customer satisfaction, integration of internal process, and learning and development.

An effective organisation is one that achieves its purpose of meeting the needs of its stakeholders, matching its resources to opportunities, adapting flexibly to environmental changes, and creating a culture that promotes commitment, creativity, shared values, and mutual trust. The improvement of organisational effectiveness is an overall objective of strategic HRM, which addresses the organisation-wide process issues related to organisational development and transformation, culture management, knowledge management, change management, developing a climate of high commitment and trust, quality management, continuous improvement, and customer relations (Armstrong, 2008).

Strategic Human Resource Management

According to Huselid (1995), the general aim of SHRM practices is to productively exploit the talents and abilities of human resources in accordance with the organisational strategic necessities. Considering that SHRM practices are not standardised, Katou and Budhwar (2007) group SHRM practices into two: practices that focus on developing and attracting HR, which include recruitment as well as selection and training; and development and practices aiming towards rewarding, maintaining, and motivating HR, which include compensation and rewards systems and performance appraisal measures. SHRM practices including training programmes, compensation, recruitment and selection, employee appraisals, and employee relations are practices considered important for strategy implementation (Daud, 2006). SHRM practices such as training and development, recruitment, compensation, and employee relations will form the basis of this study.

Strategic HRM is largely about integration and adoption. Its concern is ensuring that: (1) human resources (HR) management is fully integrated with the strategy and the strategic needs of the firm; (2) HR policies cohere with both policy areas and hierarchies; and (3) HR practices are adjusted, accepted, and used by line managers and

employees as part of their everyday work. It is the process by which organisations seek to integrate the human, social, and intellectual capital of their members with the strategic needs of the firm (Greer, 2001).

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It is the planned pattern of human resource deployment and activities intended to enable the organisation to meet their goals and objectives (Noe et al., 2007). In other words, the definition of SHRM cited by the authors shows that it is the degree of participation in core decision-making and partnership undertaken by HRM departments, and the specificity and formality that HRM departments require in planning and implementing all of that, to ensure that the firm's human capital contributes to achieving the firm's business goals.

The Impact of Strategic HRM on Organisational Effectiveness

Niehaus and Price (1988), in Greer (2001), described that the experiences of the US Navy provides another example of the integration of strategy and human resource management. As a result of the linkage, the Navy was able to pursue a proactive strategy that lowers labour costs. In the case of the Navy, its human resource planners analysed the labour cost savings of a strategy involving its civilian employees that would substitute local wage policies with national wage policies. By developing human resource forecasts to determine labour market reactions to these changes, planners could determine whether sufficient labour supplies would be available with the cost saving strategy. In this example, the planner also examined the impact of the reduction in private sector middle management positions and found that better quality of employees could be hired.

Okpara and Pamela (2008) examined the extent to which organisations in Nigeria use various HRM practices and the perceived challenges and prospects of these practices. Data were collected from 253 managers in 12 selected companies in ten cities. Their findings revealed that HRM practices, such as training, recruitment, compensation, performance appraisal ,and reward systems are still in place, and those issues of tribalism, AIDS, training and development, and corruption are some of the challenges facing the HRM in Nigeria.

Som (2008) sampled 69 Indian companies with a view to examining the impact of innovative SHRM practices on a firm's performance. Using descriptive statistics and regression analysis, the results indicated that innovative recruitment and compensation practices have a significant positive relationship with the firm's performance. Their results showed that recruitment, the role of the HR department, and compensation practices seem to be significantly changing within the Indian firms in the context

of Indian economic liberalisation. The synergy between innovative HRM practices was not found to be significant in enhancing performance during the liberalisation process.

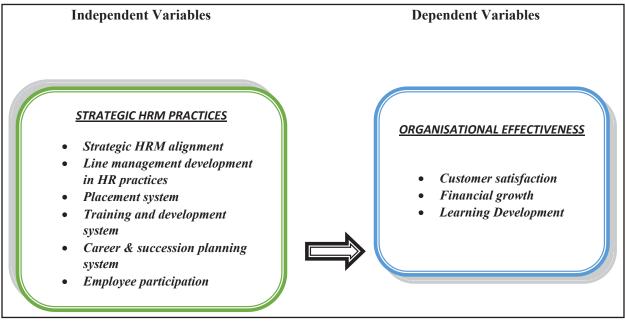
A study by Dinberu (2016) articulated the strategy planning, formulation and implementation, and monitoring and evaluation practice of Nib International Bank. A descriptive statistic was used to analyse the data gathered. The findings of the study revealed that NIB's practice of communicating the strategy plan was poor and thorough participation of stakeholders is not realised. In addition, the bank's weak use of SWOT analysis results, misalignment, or linkage of strategic plans with work units and individual tasks were observed. The strategic plan lacks the comprehensive performance measurements and is not linked with strategic management.

McManis, Gerald and Leibman (1988), in Greer (2001), found that Ingersoll Rand's experiences with one of its

divisions provides a good example of the outcome of a strong linkage between strategy and human resource management. Ingersoll Rand's rock-drilling division was experiencing rapid growth and had a shortage of labour. It needed to train its employees to work with new technology and wanted to control labour costs. The outcome of integrating its human resource capabilities with its strategic planning process was that the company implemented a number of programmes, including gain sharing and employee involvement teams. In addition, the firm had employees participate in decisions on the purchase of new technology and made a major commitment to technological training.

Conceptual Framework of the Study

Based on the literature consulted, the study developed the following conceptual framework for the present study.



Source: Own conceptualisation

Fig. 1: Conceptual Framework of the Research

Research Approach and Design

The study is quantitative in its approach. The study employed an explanatory research design since the prime objective of the paper was to show the effect of strategic human resource management practices on organisational effectiveness.

Population and Sampling Technique

This research mainly focuses on the strategic players of the organisation. The sample unit of the study was the management group of selected insurance companies, namely, Nile Insurance Company S.C., Awash Insurance Company S.C., and the United Insurance Company S.C., in Ethiopia. The researcher assumed that the management group in an organisation has better ownership, knowledge, and understanding of the company's strategies, goals, and objectives, than others. Accordingly, the main target population was the management group and other officers in the organisation, which is a combination of 160 higher officials, of which 53 were chief officers, 30 were officers, and 77 managers. As a result, the sample size was determined using the Guilford and Fruchter (1973) formula for estimating sample size.

$$\mathbf{Z} = \frac{N}{1 + u^2 N}$$

Where, Z is sample size, N is the size of the population, μ is alpha = ± 0.05 .

 $Z = 160/1 + (0.05)^2 (160) = 114.29$

Thus, 114.29 will be the sample size.

Instrument Validity and Reliability

Validity

Validity concerns the degree to which the instrument measures what it was intended to measure. To ensure content validity and ethicality of the items incorporated in the instrument, two individuals (HR professional and experienced researcher) have examined the instrument. The researcher reviewed the ethicality of the items and the HR professional appraised the content of the questionnaire for each variable. Moreover, the instrument was given to experts in the area for final comments. Based on their comments, subsequent corrections were made to the survey questionnaire and finally distributed to the sample population.

Reliability

As per Kothari (2004), reliability refers to consistency, where internal consistency involves correlating the responses to each question in the questionnaire with other questions in the questionnaire. The student researcher used Cronbach's alpha to calculate the internal consistency of the instrument. So, item reliability of the questioners was examined by pilot testing 22 respondents and analysing the results by Cronbach's alpha.

Cronbach's alpha for the entire questionnaire was 0.96, and for strategic HRM practice (organisational objectives alignment with strategic HRM, HR practice to line managers, placement system, performance management system, training and development, compensations system, career and succession planning system, and employee participation), it was 0.806, 0.877, 0.895, 0.779, 0.886, 0.811, 0.849, and 0.847, respectively.

On the other hand, organisational effectiveness, in terms of customer satisfaction, learning and development, and internal processing, were 0.782, 0.782, and 0.897, respectively. The closer the Cronbach's coefficient alpha is to 1.0, the greater the internal consistency of the items of the scale (Struwig & Stead, 2001).

RESULTS AND DISCUSSION

Based on the samples identified for the present study, 115 respondents were approached; the researchers managed to secure 100% response rate. The profile of the respondents are shown in Table 1.

Table 1:	Profile	of the	Res	pondents

	ristics of the ondents	Frequency	Percentage
Age	20-30	31	27.0
	31-40	68	59.1
	41-50	11	9.6
	51-65	5	4.3
	Total	115	100.0
Sex	Male	84	73.0
	Female	31	27.0
	Total	115	100.0
Educational	BA Degree	93	80.9
Level	Master's Degree	22	19.1
	Total	115	100.0
Work Expe-	1-4 years	69	60.0
rience	5-10 years	36	31.3
	11-15 years	10	8.7
	Total	115	100.0
Current	Manager	37	32.2
Position	Officer	56	48.7
	Chief Officer	17	14.8
	Others	5	4.3
	Total	115	100.0
Working Department	Finance and Investment	20	17.4
	Resource Man- agement	16	13.9
	Marketing and Branch Operation Man- agement	21	18.3
	Claim Manage- ment	22	19.1
	Engineering and Inspection	5	4.3
	Underwriting	10	8.7
	Information Technology	5	4.3
	Others	16	13.9
	Total	115	100.0

Source: Own Survey

From Table 1 it is possible to observe that the majority of respondents are below 40 years of age. Similarly, 84 (73%) and 31 (27%) respondents were male and female, respectively. On the other hand, the data also shows 93 (8.9%) and 22 (19.1%) of the respondent's educational background were a bachelor's degree and master's degree, respectively. Around 69 (60%), 36 (31.3%), and 10 (8.7%) respondents have 1-4 years, 5-10 years, and 11-15 years of experience, respectively. The respondents were drawn from different categories of managerial groups as shown in Table 1. The characteristics of the respondents justifies the fact that the sampled respondents

had adequate exposure to the concerns of the study, thus proving the reliability of the data sources.

The Level of Strategic Human Resource Management Practice and Organisational Effectiveness

The descriptive results shown in Table 2 reveal the extent of SHRM practices in organisations, as well as the extent of effectiveness of the organisations.

Independent and Dependent Variables	N	Min	Мах	Mean	Std. Deviation
Organisational objectives alignment with SHRM	115	2.33	4.67	3.6000	.62279
HR practice to line managers	115	2.17	5.00	3.5696	.84437
Placement system	115	1.17	4.83	3.6217	.85621
Performance management system	115	2.29	4.86	3.6174	.63538
Training and development	115	2.00	5.00	3.5957	.84669
Compensation system	115	2.00	5.00	3.6130	.76585
Career and succession planning system	115	1.40	5.00	3.2330	.77139
Employee participation	115	1.80	5.00	3.3009	.80671
Organisational effectiveness – Customer satisfaction	115	1.67	4.00	3.0493	.65968
Organisational effectiveness – Financial growth	115	1.00	5.00	3.6957	.87031
Organisational effectiveness – Learning & development	115	2.25	5.00	3.4522	.63513
Organisational effectiveness – Internal processing	115	1.67	4.67	3.3710	.87611

Table 2: Level of Strategic HRM Practices and Organisational Effectiveness

Source: Own Survey (2020)

From the descriptive statistics output shown in Table 2, it is possible to conclude that the level of each SHRM practice (organisational objectives alignment with strategic HRM, HR practice to line managers, placement system, performance management system, training and development, compensation system, career and succession planning system, and employee participation) was medium, since the mean value lies between 3.33-3.62. Similarly, organisational effectiveness parameters (customer satisfaction, financial growth, learning and development, and internal processing) also show a medium level, where the mean ranges from 3.04-3.69.

The Relationship between SHRM Practices and Organisational Effectiveness

In this part of the study, the relationship between SHRM practices (organisational objectives alignment with

strategic HRM, HR practice to line managers, placement system, performance management system, training and development, compensation system, career and succession planning system, and employee participation) and OE (customer satisfaction, financial growth, learning and development, and internal processing) is studied.

The data in Table 3 shows a positive and significant relationship between organisational effectiveness and the different aspects of strategic HRM practices considered for the present study. From the data, it is possible to observe that there is a positive and significant relationship between each SHRM practice and effectiveness on customer satisfaction, financial growth, learning and development, and internal processing, because the P-value for the correlation in each case is less than 0.05.

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		Z	115	115										
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		Sig	0	0										
		Z	115	115	115									
Sig 0	4	R	0.537	0.733	0.779	1								
		Sig	0	0	0									
		Z	115	115	115	115								
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g 0 0 0 0 0 0 0 0 001 0 115	12	R	0.34	0.371	0.367	0.516	0.481	0.412	0.41	0.619	0.585	0.299	0.735	1
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		N	115	115	115	115	115	115	115	115	115	115	115	115

The Role of Strategic HRM Practices on Organisational Effectiveness

In this part of the study, the impact of SHRM practices on organisational effectiveness is shown. Furthermore, the goodness of fitness of the model was checked based on the key assumptions of regression. The model summary that shows the effect of independent variables on the dependent variable is shown in Table 4.

Table 4: Model Summary of the Predictive Power ofSHRM Practices on Customer Satisfaction

Model	R	R Square		Std. Error of the Estimate
1	.704 ^a	.495	.457	.48609

a. Predictors: (Constant), employee participation, organisational objectives alignment with SHRM, placement, career, HR practice, training development, compensation, performance

Model		andardized efficients	Standardized Coefficients	t	Sig.
	В	Std. Error	Beta		
(Constant)	.683	.322		2.120	.036
Organisational objectives alignment with SHRM	.080	.093	.075	.858	.393
HR practice to line managers	.185	.104	.237	1.771	.079
Placement system	.390	.092	.506	4.222	.000
Performance management system	.942	.176	.907	5.341	.000
Training and development	.156	.117	.200	1.334	.185
Compensation system	.358	.134	.416	2.667	.009
Career and succession planning system	.245	.110	.286	2.220	.029
Employee participation	.016	.090	.020	.181	.856

 Table 5: Beta Coefficients of Unstandardised and Standardised Coefficients

From Table 4, based on the result of adjusted R-square, it is possible to observe that 45.7% of the variations on organisational performance was explained by strategic human resource management practices of the organisations under study. The contribution of each of the strategic human resource management aspects are shown in Table 5.

Based on the Beta coefficients of the variables, the significance levels of the following factors, i.e., the role of line managers on HR practice (.237), organisational placement system (.506), performance management system (.907), training and development practice (.200), compensation system (.416), and career and succession planning (.286), were found to be indicators of organisational effectiveness.

CONCLUSIONS

The major focus of this study was to show the role of SHRM practice on OE in selected insurance companies in Ethiopia. Accordingly, the findings of this study indicate that each SHRM (organisational objective alignment with SHRM, HR practice to line managers, placement system, performance management system, training and development, compensation system, career and succession planning system, and employee participation) significantly relates to the OE dimensions and they are moderately practicable. However, from SHRM practices considered for the present study, only devolvement of HR practice to line managers, placement system, performance management system, training and development, compensation system, and career and succession planning system significantly explain organisational effectiveness.

LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

As the samples of the study were drawn from selected employees of insurance companies in Ethiopia, the results of the study cannot be inferred for the rest of the establishments in the country. Therefore, this study calls for an in-depth research on other establishments in the country.

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